

# **BUDGET AND BUDGETING IN THE THIRD TIER OF GOVERNMENT: PROBLEMS AND PROSPECTS.**

<sup>1</sup>Igbara, Neeka <sup>2</sup>Tordee, Barikui <sup>3</sup>Nwadike, George <sup>4</sup>Abuba, Solomon

<sup>1,2,3,4</sup> Department of Accountancy, Ken Saro Wiwa Polytechnic, Bori, Rivers State, Nigeria.

## **Keywords:**

1. Budget;
2. Budgeting;
3. Local
4. Government;
5. Appropriation;
6. Implementatio

**ABSTRACT:** Recently, the role of local government in providing basic services as listed above has attracted public concern. It has generated national crisis as a result of increasing rate of poverty among the rural people. Some scholars attributed this development to poor budgeting and implementation while others associate it to the federal and state governments' interference. Whatever may be the reason; there is considerable emphasis, possibly on an over-emphasis on budgeting in the federal government against the under-emphasis on budgeting practices and procedures in state and local governments in Nigeria. The paper argued that the impact of budget on the socio-economic development of any nation depends on how effective their budget was initiated and implemented. It was concluded that boasting and bringing out the best of the expectancies of what the local government areas stands to offer, the place of financial appropriations and allocation cannot be exonerated hence, the importance of budgeting.

**Citation:** Igbara, N., Tordee, B., Nwadike, G. and Abuba, S. (2016). Budget and budgeting in the third tier of Government: Problems and prospects. *Equatorial Journal of Finance and Management Sciences*. 1(1):1-9

## **INTRODUCTION**

Individuals, both in the rural and urban areas in Nigeria are supposed to be product of continuous provision of welfare services and basic needs including medical facilities, good road, educational infrastructures, drinkable water etc. The crucial nature of the role of local government councils in bring development close to the people at the grass root is increasingly generating greater concern and interest because of their gross failure to deliver the supposed dividend to the beneficiary<sup>9</sup>. One of the tools that is crucial in driving the actual implementation of local development

Entails proper and implementable budget, which has in recent times been infested with politics. The budgeting practice in local government consequently highlights the human and behavioural features of the assessments which cardinal concerns is geared at answering the question of "who gets what, how, when and why of the local government monetary assets.

In recent times, the place of local government in the provision of basic services is attracting public concern. It has created general predicament as a product of growing level of poverty among the rural people. Some scholars

ascribed this development to pitiable budgeting as well as its implementation procedure while others has blamed the deplorable state of the budget to the federal and state governments' intrusion. Whatever may be the reasons; there is huge prominence, probably an over emphasis on budgeting in the federal government against the under-emphasis on budgeting practices and processes in state and local governments in Nigeria. It is against this background that this paper has set as its main task, a critical examination of budget and budgeting at the local government level with a view of explaining the preparation, the problems and highlighting the prospects.

## **THEORETICAL/CONCEPTUAL ISSUES**

### **Meaning of Budget and Budgeting**

A budget is the distribution of resources (most often money) for certain purposes. The word can be attributed to mean "Pouch" or "Purse", a budget therefore is what's in the pouch. In a somewhat a cute way, a budget is a measurable manifestation of a strategy for a defined period of time. It may include deliberate sales volumes and revenues, resources, quantities, costs and expenses, assets, charges and cash flows. It expresses strategic plans of government, business units, organizations, an activities or events in demonstrably terms.

According to Oshisamic (1992), a budget is a disposition conveyed in measureable and usually monetary terms, covering a specified period of time. Normally, the period covered is one year and this makes it a short term plan. Essentially, all hefty organizations, both in the private and public sectors prepare annual budgets. To many, the term implies a restrictive influence on action, hence many people either as individuals or members of organization seem to develop a negative attitude to budgeting. Since resources available are not always sufficient to service the needs or opportunities which the organizations will, like to

serve, budgeting remains the most strategic instrument for both decision-making as well as allocation of resources. The budget of any government be it federal, state or local is a comprehensive financial plan of its income and expenditure within a specified period of time which service as the basis for government operations during the period. It is a systematically designed plan of proposed financial allocations to various services and programmes with detailed and carefully calculated projections of income from all its revenue sources. The local government budget is generally for a period of twelve months, hence it is commonly known as annual estimate.

An annual budget is both financial plan as well as a political document. In fact, it is argued that a budget is more of a political document as both the budget objective and its allocations are embroidered with politics and governed by political considerations.

### **The rationale for Budgeting in governance:**

The budget provides an effective strategy for an efficient financial management. As a systematic plan of projected income and expenditure, with inbuilt checks, the budget serves as a powerful instrument of control. Hence, Due and Friedlander (1967),<sup>3</sup> regard budget as a monetary disposition that functions as the basis for expenditure, decision-making and consequent control of disbursement. Institutionalized and statutory measures are provided to ensure that financial appropriations are spent for the purposes they are voted for and in accordance with the law and regulations. It, therefore, checks waste of public funds. It also ensures that available public funds are spread out over various essential services and programmes, promotes economy in the operations of government and in consequence ensures efficient and effective administration. A budget is designed to facilitate and determine government activities in the light of the preferences of society by ensuring the

comparison of conflicting programmes and methods in the attainment of some predetermined goals.

Another important purpose of a budget is public accountability. The most important value of the budgetary system is accountability which is accomplished by a system of internal checks based on record-keeping. The budgetary system facilitates accountability by public officials of the public funds entrusted in their hands. The fragmentation of duties at both the levels of formulation and implementation results in the specialization which promotes efficient administration. Coordination is also provided by the budget to reconcile the various services and programmes competing for funds. The coordination in the milieu of keen competition results in fair and equitable allocation of resources to where they are most needed. A budget is equally an authority for public officers to collect taxes, fees, charges and fines. It is also an authorization for the official to spend public revenue as provided in the approved allocations and in accordance with the Financial Memorandum. The authorization by the legislature promotes the principle of popular sovereignty exercised through the principle of mandate. It also serves as an essential device for relating total expenditure to total revenue which creates a challenge in order to meet the requirement of the estimated revenue. A budget is a scientific means of qualification and measurement of services in terms of expenditure within a given period.

According to Ogunna (1996)<sup>6</sup> government budgets can be seen as an instrument for job-creation. Through budgeting, job opportunities are created by providing for capital development projects. It is, therefore, a means for the reduction of the high rate of unemployment in our society and thereby checking rural-urban drift (migration).

### **Approaches to Budgeting in Local Government Administration**

Several approaches exist in budgeting. They are as follows:

(i) **Open-end Budgeting:** This is an approach which permits officials to recommend a single estimate for the year in question. For instance, the chairman of a local government may opt for this type of approval. In this case, he makes a list of all the projects as possible as no restrictions are placed on his listings.

(ii) **Alternative Budgeting System:** This is a method by which another budget estimate supplement is prepared as alternative to the main budget. For instance, if the budget estimates are made item by item, an alternative amount is set side by side and that amount acts as alternative expenditure guide. Alternative budgeting assists in making less authoritative and final budgets.

(iii) **Fixed Ceiling Budgeting:** Under this plan, a fixed ceiling is established in advance which the subordinate budget estimates cannot exceed. In this case, the chairman of the local government may give each department specific instructions regarding the total ceiling figures of which a department must not exceed in making budget estimate. The problem encountered in fixed budgeting is the problem of setting a program either too high or too low. However, fixed ceiling budgeting acts as a guide for subordinate in preparing their budget estimates.

(iv) **Work Load Measurement and Unit Costing :** This is a method of determining units of work or project with its cost. By this method, it is possible to determine how much it costs to perform each unit work. This is to say that if it costs N100 to grade 1km of road, it will therefore cost N1000 to grade 10km road. This approach is useful in budgeting, for it provides quantitative measurement for economic calculations and it assists policy makers in deciding the feasibility and non-feasibility of any programme. The problem experienced in this approach is

lack of information. In-as-much as the work load measurement and unit costing can assist the decision maker to complete the number of projects that are being done, it cannot show how many projects that should be done nor their economic, social and political undertones.

**(v) Increase-Decrease Budgeting:**

This is an approach by which the budget estimates identify item by item increases or decreases as compared to the previous year's budget. Special explanations are required for the increases. The basic fault with this approach is the fact that it does not require the comparison relative values of the old and new.

**(vi) Priority Listing:** This approach requires the budget estimator to indicate priorities of items included in the budget requests. This approach assists the decision maker to determine possible areas where cutbacks or item scraping can be made.

**(vii) Zero Base Budgeting:** This approach include objective setting of program, evaluating and reviewing all programmes systematically in terms of output and cost; to emphasize management decision making. Zero base budgeting involves some steps including: Ascertain decision elements; examine each decision packages; Appraise and rank all decision packages to develop appropriations request; and prepare the detailed operating budget reflecting those packages approved in the budget appropriation.

The pragmatic approach to zero base budgeting offers local government authorities a flexible tool to utilize in rethinking and reducing programmes to endure performance, output and cost reduction. They can also use this approach to reduce or eliminate low priority programmes; improve programme effectiveness by constant review and adjustment and shift more funds to high impact programmes. However, one of the pitfalls of this is that

it is too demanding for the management capacity of many local governments.

**The Concept of Local Government:**

According to Ojofeimi (2000)<sup>8</sup>, local government can be seen as an administrative smaller unit within a country (or in a federal system, a state) which is constitute by law and has significant mechanism of local activities comprising the authority to enforce taxes or to request labour necessary for certain commitments. The principal figure of such a body is voted in some cases chosen among the local people. Therefore, local autonomy becomes paramount to categorize government at the local level. Ojo (2009)<sup>9</sup> have summarized some of the features of the local government as follows:

(i) It involves both the administrative and political processes of government power.

(ii) There is restriction of power by the statuses that create it.

(iii) They are legally responsible to perform legislative, administrative and judicial functions.

(iv) There is the presence of representative elected to implement the functions they were sworn into office.

(v) It has the legal self-sufficiency to make policies, to arrange its own budget, employ its workers as well as implement its own policies. The foregoing with reference to provision of Section 7, subsection (1) of the 1929 Constitution authorizes the government of every state of the Federal Republic of Nigeria to make a statute which afford for the creation, structure, composition, finance and functions of such councils it creates. Accordingly, subsection (3) of the same section 7 of the Constitution also provided that it shall be the duty of a local government to participate in economic planning and development of its area of authority. It is a commonly agreed fact that no important profitable

development and planning can be carried out without fund. However the Federal and the state governments are accountable for improvement at the state and federal levels, it is the constitutional obligation of local governments to provide for the citizens at the grassroots level which constitute the greater percentage of the country's population.

### **Functions of Local Government**

As creation of Law, the statutory responsibilities of the third tier of government are defined in the fourth schedule of the 1979 Constitution which includes assemblage of proceeds to meet obligations for monetary planning and development of its area. Local Governments in Nigeria have a lot of duties including organizing local assets, stimulating social and economic enhancement and development including nationwide harmony.

According to Obinna (1988)<sup>5</sup> and Ojo (2009)<sup>7</sup>, the third tier of governments are expected to carry out local policies with regards to agriculture and certain industries, thus assisting to reduce unemployment, improve fund generation, ensure adequate budgeting, improvement planning, establishment of facilities and communal organization. Ojo (2009)<sup>7</sup> avows that some of the responsibilities of local government are: extensive, serious, critical and fundamental for guaranteeing the total development and change of several local areas. These evolving essentials also promote highlighting the case for feasible and resourceful financial administration for the local people. Ojo<sup>7</sup> further enumerated some of the tasks of local government to include: Collection of rates, radio and television licenses; establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm; establishment and maintenance of primary, adult and vocational education; improvement of agriculture and natural resources (other than the exploitation of minerals); provision and maintenance of health services, among others

### **Budgeting Process at the Local Government**

There are certain processes every budget goes through before it becomes both a law and a tool for economic development. This comprises various administrative entities, programmes and centres responsible for the growth of periodic budget. It denotes the sum of the procedures a budget undergoes for it to become a document. These processes may include the various executive and legislative procedures, that is, gathering of estimates from the several government sectors to the justification before some committees of the legislature and considerations in the floor of the houses, the passage into law and the final execution and monitoring. Planning of budget predominantly contains identification and setting of developing objectives. That is, it involves setting budgetary thrusts and strategies based on the development plan. However, the current dimensions of budgeting system accompany the growth of representative government and activities<sup>9</sup>.

In some instance, the budget system was established at the federal level and then spread to state and local governments. The local government council finds it more convenient to prepare its budget on line-item budgeting. Under this approach, consistent accomplishments are groups together into programme. The local government prepares its budget in agreement with the financial memoranda which provide for a uniform classification of income and payments to be adopted by all local government councils throughout the country. The uniform estimates classification will also apply to the accounts of all local government councils. This will enable comparison to be made at any time, throughout the year between the provision under the heads and sub-heads on the accounting record. The budgets or estimates are usually prepared in four sections viz.:

- a. Recurrent Revenue;
- b. Recurrent Expenditure including

- personnel emoluments and allowances;
- c. Capital Receipts;
- d. Capital Expenditure.

The budget process commences with a call circular from the Executive Council consisting the Chairman, the Supervisory Councillors and other officials (Secretary, Treasures, Head of Personnel and Legal Advisors). They call on all relevant department heads to prepare estimates for the coming fiscal year. Subsequently, the Heads of departments prepare estimates of expenditure in line with the goals and the estimates of expected revenue as well as the sources expected. When the various estimates proposals have been submitted by the Departments, the treasurer invites them to come and defend their proposals before the finance and General Purposes Committee of the Council. That committee is charged with the responsibilities to receive and consider the annual estimates proposals of all spending committees and departments as collected by the treasurer and to direct the treasurer in the preparation of the draft annual estimates of revenue and expenditure proposals which are inconsistent or at variance with the policy are eliminated. When necessary adjustments have been made, the Treasurer then prepares a consolidated estimate proposals for the council. Consolidated Budget proposals are then presented to the council members for consolidation of a draft of budget for approval. After the draft budget has been approved by the council members, it is forwarded to the state government through the Bureau of Local Government Affairs and Chieftaincy Matters. That office goes through the council's draft budget with council chairman and his top executives to make sure that nothing in the budget is at variance with federal or state government policy and also that the budget complies with guidelines. After this, the draft budget is forwarded to the governor's office for final approval. When approved, the budget becomes the

approved budget of the council for the year. All operations of the council must be in line with the approved budget unless varied through a supplementary approval budget as prescribed in financial memoranda 2005 section 4.1 and 4.2. the preparation of a draft budget can be summerized as follows:

- i. Circulation of call letter Treasurer to Department for budget proposals;
- ii. Preparation of budget proposals by departments and submission to finance and general purpose committee through the treasurer;
- iii. Defense of proposals by departments before the finance and General Purpose Committee;
- iv. Preparation of consolidated draft budget by the treasurer;
- v. Submission of the consolidated draft budget by the treasurer to the council, when approved the budget becomes the approved draft of the council.

## CHALLENGES OF LOCAL GOVERNMENT BUDGETING

- i. **Lack of Accurate and Reliable Data:** There is lack of data and proper record keeping resulting from poor enumeration revenue collecting areas and sources. Rational decisions making is dependent on adequate and reliable data. It is observed that local governments are weak in record-keeping, data collection and proper documentation which are vital prerequisite for efficient budget formulation and implementation.
- ii. **Skilled Manpower:** Majority of local government are managed by administrators who lack the required governance and administrative abilities to bring the gains of democracy to the

people.

**iii. Interference by Central / State Governments:** The 1999 Constitution confers powers that relegate the local governments to both the federal and state governments. Evidently, this has created friction leading to the neglect of local bodies. The council is not given the necessary independence as practiced in a true federal structure. In addition, elections into the council in most states have not taken place more than a year after they were dissolved. It goes to show that democracy in Nigeria today is not practiced at the local government level.

**Finance:** The general lack of financial resources, unpredictability of fund flow, especially for highly unviable local government poses serious problems of budgeting at the local government. The local government budget planning is based on the possible expected revenue while its implementation depends on the availability of the projected plan with very weak financial foundation while, on the other hand, the projected revenue is never actualized. There is a total takeover of the monies accrue to local government areas by the state and federal government. The internally generated revenue of those councils is too small to pay the wages and salaries of their junior staff not to talk of carrying out any significant project. Hence, the call for constitutional backing for fiscal and administrative autonomy for the local government becomes imperative.

### **Corruption and Mismanagement:**

Corruption is also one of the major problems affecting the local government. In fact, a mere mention of the local government connotes corruption. The popular myth propagated by the council officials is that the councils are always short of funds. No doubt, the heavy funding that runs into billions of naira

as always released to the local councils may not be enough because of the high level of corruption in the councils. It has also been observed that most local government councils do not accord adequate regard to the budget process. The fall out of this situation is the indiscriminate and unplanned execution of projects. The state governments which would have served as a check are not free from this cankerworm. Evidently, there is contract scams in all local government councils in Nigeria. These contracts are inflated and worse still, the projects are not executed and thereby defeating the essence of budgets.

### **Lack of Civil Society Participation:**

Ugoh and Ukpene (2009)<sup>9</sup> have identified the lack of civil society participation as one of the problems facing local government budgeting in Nigeria. They assert that the level of participation by the people is highly limited especially the local governments located at the rural areas. This negates one of the principles of budgeting as discussed earlier. The reason is attributed to high illiteracy level and the poverty rate. Thus, the psyche of the people is very low. In addition, there is no law that encourages civil society participation in governance and also no access to information and participation. In the absence of this, civil society, no matter how vibrant and enlightened cannot achieve anything.

Local governments lack viable machinery for the movement of community leaderships in budget formulation through which those leaders could be helped in the identification and ordering of the priorities of the people, evolving strategies for full implementation of the local resources and mobilization of the people for participation in fund raising and project execution.

**Excessive Delay by the State Government:** State government usually

delays in sending out call circular which is the basis for project estimate preparation. If the circulars do not arrive early, the local government will be constrained as they will have very little time to prepare its estimates. At times, when the time is short, the officials will simply dust up previous year's estimates and send them across. This is against the spirit of budgeting. Apart from the above, delays are also experienced when estimate are spent to state governments. This has led to many local governments operating without budget. Such situation not only encourages fraud but creates accounting fraud. Other challenges the local government faces include: Corruption, mismanagement of funds, etc.

### **CONCLUSION AND RECOMMENDATIONS**

Local Government stands tall in the development of any country that adopts the three tiers formation of government (federal, state and local government). Local government is faced with an enormous task of driving development to the grass root which constitute above 70% of the population of most developing nations including Nigeria. Economic and every other forms of development are channelled and championed by local government administration. Fulfilling the enormous and well planned policy drive and expectations that local government administration has to offer, financial appropriation and allocation has stalled the full To boast and come out with the best of the expectancies of what the local government areas stands to offer, the place of financial appropriations and allocation cannot be exonerated hence, the importance of budgeting. Realization of the statutory rights, privileges and objectives of the provision of section 7, subsection (1) of the 1979 constitution of the Federal Republic of Nigeria. The existence of the state joint account with the local

government councils has seriously impedes the maximum impact the grass root people should have felt from local government administration therefore, defeating its aim and creation. The position of this paper is that a well clear-cut policy that regulates the state government interference and dominance of local government administration especially in the area of financial appropriation and allocation is a tonic to realizing and achieving the intentions of rural development. However, the place of a sincere budget implementation is a valuable drive to realizing the foregoing position of this paper. Hence, the following recommendations are discernible:

i. Budgetary actors should realize that expenditure of public funds entails opportunity cost. In a sense, this means making prudent choices to ensure that important societal preferences are provided for, while less pressing needs are postponed, for future action.

In other words, officials should be sensitive to the peculiar environment of their local government and the budget should be adequate in response to these peculiarities.

ii. All planned projects to be included in the budget should be within the resources of the local government. Project should not start if the sources of funds are uncertain.

iii. Annual estimates (budgets) are the concern of all the functionaries in the local government. It is, therefore not the responsibility of the Treasurer alone. As a corporate exercise it should be taken seriously by those concerned. Executive time should therefore be allocated to the exercise.

iv. The federal government should make funds available to the local government adequately and on time too. If funds are not available, budgeting will



be more theoretical exercise.

v. The states on the other hand should release call circular in time and also approve budgets swiftly. By so doing, the states will be in the position to monitor the operation in the local government.

vi. When annual estimates are approved, state governments should ensure that local government adheres to them to prevent budget indiscipline. The Internal Auditors should be officers of sufficient seniority so that they can help in instituting budget discipline in the local government.

vii. Local government should establish a planning and budgeting unit headed by well qualified and experienced budget and planning officer who should be charged with the responsibility of budget research and formulation project studies and budget performance appraisal.

## REFERENCES

[1] Akinboye, S. (2006). "Reflections on Local Government Reforms in Independent Nigeria: The Imperative of a New Agenda for Grassroots Development" in Ugoh, S. C. and Ukpene, W. I. (2009): Problems and Prospects of Budgeting and Budget Implementation in Local Government System in Nigeria. *African Journal of Business Management*, vol. 3 (12), pp. 836-846.

[2] Burkhead, J. (1926). *Government Budgeting*. New York: John Wiley and Sons Inc.

[3] Due, J. F. and Fredlauder, a. F. (1967). *Government Finance*. Homewood Richard Dirlwin Inc.

[4] Nwosu, M. E. and Okafor, O. H. (2013). Financial Management in Local Government: The Nigerian Experience. *International Journal of Financial Research*, vol. 4, No. 4.

[5] Obinna, E. (1988). *Local Government Financing*. Obosi: Pacific Publishers.

[6] Ogunna, A. E. C. (1996). *A Handbook on Local Government in Nigeria*. Owerri: Versatile Publishers.

[7] Ojo, O. (2009). *Efficient Financial Management for Local Government: The Nigerian Experience*.

[8] Ojofeitimi, T. (2000). *Managing at the Grassroots: Local Government and Rural Development in the 21<sup>st</sup> Century*. Lagos: Centre for Management Development.

[9] Ugoh, S. C. and Ukpene, W. I. (2009). Problems and Prospects of Budgeting and Budget Implementation in Local Government System in Nigeria. *African Journal of Business and Management*, vol. 3 (12): 836-846.